

Exhibit A

Old Salem Associates  
Limited Partnership

September 30, 2004

Investor Limited Partners of  
Old Salem Associates Limited Partnership

*Re: Proposed Purchase of Limited Partner Units*

Ladies and Gentlemen:

As you are aware, Old Salem Associates Limited Partnership, a Massachusetts limited partnership (the "Partnership") is the owner of a rental housing project commonly known as Fairweather Apartments comprised of four complexes located in Beverly, Danvers, Peabody and Salem, Massachusetts (the "Project"). As you are also aware, the Project and the Partnership are subject to a first a mortgage loan insured by the Department of Housing and Urban Development ("HUD") under Section 236 of the National Housing Act, as well as a purchase money note and accrued interest thereon due to an affiliate of the General Partners of the Partnership. To date, the Investor Limited Partners of the Partnership (the "Investor Limited Partners") have received certain tax benefits in connection with the Project. These tax benefits have diminished over the years, and will continue to diminish steadily. In fact, the Partnership generated phantom income to the Investor Limited Partners in excess of \$12,000 per unit in 2003, which phantom income is expected to increase in 2004, and each year thereafter.

In response to the requests of certain Investor Limited Partners and to avoid the continued allocation of phantom income to the Investor Limited Partners, the General Partners, acting through an affiliate thereof (the "Purchaser"), are offering to purchase the interests of all Investor Limited Partners (the "Offer") for a purchase price equal to \$50,000 per investment unit ("Unit"). The Purchaser is offering to purchase 100% of the Units. The Offer is conditioned upon 85% of the Units (i.e. 17 of the 20 Units) being tendered by the Investor Limited Partners.

Below is additional information relative to the Partnership, the Project, and the proposed Offer for your review. Also enclosed is a Purchase Agreement for your signature. If you wish to accept this Offer of purchase of your Unit(s), please execute the Purchase Agreement where indicated, and return it to the General Partners in the enclosed self-addressed stamped envelope.

Partnership Operations

The Project was acquired by the Partnership in 1983. In connection with the acquisition of the Project, the Partnership gave a purchase money note, secured by a security interest in each Partner's interest in the Partnership, to an affiliate of the General Partners in the amount of \$2,800,000 (the "Purchase Money Note"). The Purchase Money Note bears interest at the rate of 12.5% per annum and is paid from all available cash flow and capital

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transaction proceeds. The Purchase Money Note, although due upon the earlier to occur of a sale or refinancing of the Project or August 31, 2003, has yet to be re-paid and continues to accrue interest. (Further detail is contained in the Year 2003 audited financial statement that you recently received.) As reflected in the audited financial statements, as of December 31, 2003, the total amount due under the Purchase Money Note for principal and interest was \$7,288,588 (the "Purchase Money Loan"). In addition, as reflected in the audited financial statements, the Partnership is subject to a first mortgage loan in the amount of \$1,723,341 which does not mature until July 1, 2010. The Partnership currently receives interest reduction payments from HUD as well as rental subsidies pursuant to two Section 8 Housing Assistance Payments ("HAP") Contracts that subsidize 220 of the 321 rental units. These Section 8 contracts will expire on March 31, 2005. The General Partners will request a renewal of each Section 8 contract but it is not known what rent level HUD will approve at this time.

As you may have seen in your K-1 annual statements, in recent years Partnership losses available to the Investor Limited Partners have declined and you have been allocated income. Partnership income allocable to the Investor Limited Partners is expected to increase steadily. The Partners will eventually be subject to a large tax liability resulting from phantom income allocated to the Partners, with no material projected cash distribution. In fact, as you know, as a limited dividend organization, distributions are limited by HUD. After payment of Partnership expenses (including payments in respect of the Purchase Money Note) there has been no cash flow available for distribution to the Investor Limited Partners for some time. Even if there were cash available for distribution, it would not be available to the Investor Limited Partners. Pursuant to the terms of the Amended and Restated Certificate and Agreement of Limited Partnership of the Partnership dated August 25, 1983 (as amended, the "Partnership Agreement"), Project cash flow and capital transaction proceeds must be applied to pay Partnership debt including the first mortgage and the Purchase Money Loan. It is therefore likely that no cash flow would be available for distribution to the Investor Limited Partners for many years. While the Investor Limited Partners have received substantial tax benefits over the years, those benefits have now ceased.

There are no current plans to either refinance or market the Project for sale. In the event that the Partnership does, however, pursue a refinancing of the Mortgage Loan, it is unlikely that the proceeds of a refinancing (or a sale) would be sufficient to repay all Partnership debt and return any portion of each Limited Partner's capital contribution in the best case scenario. For example, based on current rents and expenses, assume a \$7,000,000 loan to the Partnership is supportable. The proceeds of the loan would likely be applied as follows:

|                          |                |
|--------------------------|----------------|
| New Loan:                | \$7,000,000    |
| Pay-Off Existing Loan:   | 1,700,000      |
| Rehab                    | 1,250,000      |
| Transaction Costs:       | 600,000        |
| Reserves:                | <u>450,000</u> |
| Available to Partnership | \$3,000,000    |

Pursuant to the Partnership Agreement and the terms of the Purchase Money Loan, any available capital transaction proceeds and any next available cash flow would continue to be applied to the Purchase Money Loan, and therefore, while the Investor Limited Partners will continue to be allocated income (and at a further increased amount and rate as the Partnership cash flow amortizes debt) it is unlikely that the Investor Limited Partners would receive any cash distributions from the Partnership.

#### Purchase Offer

The Purchaser is offering to purchase the interests of the Investor Limited Partners for \$50,000 per Unit (\$25,000 for a half Unit). This is approximately 50% of the original capital contribution made by an Investor Limited Partner who purchased one Unit. This Offer should not be construed as a representation or statement made by the Purchaser as to the value of a Unit or the fairness of the Purchase Price. The Purchase Price was not determined by the Purchaser based on any current appraisal of the value of the Project. No independent person has been retained to evaluate or render any opinion with respect to the fairness of the Purchase Price and no representation is made by the Purchaser, the General Partners or any affiliate thereof as to such fairness. Investor Limited Partners are urged to consider carefully all of the information contained herein before accepting this Offer.

As indicated in this discussion, and pursuant to the terms of the current Partnership Agreement, if current Project operations are maintained, it is unlikely that the Investor Limited Partners would ever receive a cash return on their investment. In fact, if current operations are, the Partners will continue to be charged with significant income, as much as \$13,000 per Unit for 2004, with no cash distribution to them. As described herein, the Partnership Agreement provides that cash flow and the proceeds of a sale or refinancing be used to pay creditors of the Partnership, including Partners. Further, any increased cash flow must first be used to repay creditors of the Partnership including any mortgages and the Purchase Money Loan; therefore it is unlikely that any cash flow would be available for distribution to the Investor Limited Partners for many years.

To create liquidity to the Investor Limited Partners, the Purchaser is offering to purchase the interests of each Investor Limited Partner for the price of \$50,000 per Unit. It is a condition to the purchase that at least 85% of the Investor Limited Partners agree to sell their Units. The Purchaser may waive any such requirement as to one or more Partners but are not required to do so. In such case, the Purchaser reserves the right to proceed with the Plan of Purchase, and the Plan of Purchase would only be applicable to those Investor Limited Partners who consent to the purchase of their Units as described below. As discussed above, it is not likely that proceeds from any refinancing would produce a distribution to the Investor Limited Partners under the terms of the current Partnership Agreement which provide for the repayment of all Partnership debt prior to distributions to the Investor Limited Partners, and it is anticipated that the Investor Limited Partners will continue to be allocated phantom income in the amount of \$13,000 per Unit in 2004, taxable at the ordinary income rate. The sale of your interest now will allow you to avoid such continued allocation of phantom income at increasing rates.

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The purchase of your interest will trigger a tax of approximately \$69,237.50 per Unit assuming a 25% capital gains rate. As of December 31, 2003, each one Unit of Investor Limited Partner interest had a negative tax basis, as shown in the K-1s, of approximately \$236,950. If you sell your Unit, such amount would result in a capital gain, federally taxable at 25% to the extent of certain depreciation previously taken and 20% for an amount in excess thereof. An Investor Limited Partner may have unused losses which may be available to offset such gain. A purchase will result in a capital gains tax on such negative basis plus the \$50,000 purchase price at the capital gains rate of 25% (i.e., (.25 times \$236,950) plus (.20 times \$50,000) = \$69,237.50) *unless an Investor Limited Partner has unused losses which could currently be treated as an ordinary loss and offset such gain, or has received a step-up in basis with respect to such Unit.*

*Each Investor Limited Partner is encouraged to seek his or her own independent advice relative to the income tax consequences of a sale of his or Unit.*

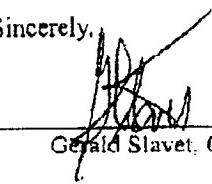
The Purchaser is prepared to purchase 100% of the Units. It is a condition to this Offer, however, that at least 85% of the Investor Limited Partners agree to sell their Units. The Purchaser may waive any such requirement as to one or more Partners, but is not required to do so. This Offer must be accepted within 30 days of the date of this letter unless extended by the Purchaser in its sole and absolute discretion.

#### Conclusion

By consenting to the Plan of Purchase, you will avoid the allocation of phantom income, taxable at ordinary income tax rates of up to 40%, and receive a cash payment of \$50,000 per Unit. Cash distributions to the Investor Limited Partners are not otherwise expected to be made in any case. We believe that this is a beneficial plan for all Partners. Please feel free to contact Kevin C. Baptista at MB Management Company (781-356-2719), <sup>x124</sup> acting on behalf of the Purchaser, if you have any questions. Each Partner should consult his or her own accountants with respect to the particular tax considerations to him or her presented herein.

Please sign the enclosed Purchase Agreement and return it in the postage prepaid and addressed envelope provided so that the Purchaser may work toward an expeditious closing of this transaction.

Sincerely,



Gerald Slavet, General Partner



**MB MANAGEMENT COMPANY**

■ 220 FORBES ROAD, SUITE 205  
BRAINTREE, MASSACHUSETTS 02184-2709  
781 / 356-2719 ■ FAX 356-2765

March 1, 2004

*To All Investors  
Old Salem Associates*

**RE: Old Salem Associates**

Enclosed please find the following information as it relates to the above referenced property:

- 2003 K-1 Schedule
- 2003 Financial Statement

If you need any additional information, please feel free to call me at the number listed above. My extension is 147.

Sincerely,

A handwritten signature in black ink that appears to read "April E. Polimene".

April E. Polimene  
Management Coordinator

Enclosures

**OLD SALEM ASSOCIATES  
LIMITED PARTNERSHIP  
HUD PROJECT NO.: 023-44805**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**YEAR ENDED DECEMBER 31, 2003**

**OLD SALEM ASSOCIATES LIMITED PARTNERSHIP  
HUD PROJECT NO.: 023-44805**

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# ERCOLINI & COMPANY LLP

Certified Public Accountants • Business Consultants

## INDEPENDENT AUDITOR'S REPORT

To the Partners of  
Old Salem Associates Limited Partnership  
Boston, Massachusetts

HUD Area Office  
Boston, Massachusetts

We have audited the accompanying balance sheet of Old Salem Associates Limited Partnership (a Massachusetts Limited Partnership), HUD Project No.023-44805 as of December 31, 2003, and the related statements of income, partners' equity (deficit), and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Old Salem Associates Limited Partnership as of December 31, 2003, and the results of its operations, changes in partners' equity (deficit), and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated February 25, 2004 on our consideration of Old Salem Associates Limited Partnership's internal control, a report dated February 25, 2004 on its compliance with laws, regulations, contracts and grants, and reports dated February 25, 2004 on its compliance with specific requirements applicable to HUD programs. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information included in this report (shown on pages 14 through 19) is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ERCOLINI & COMPANY LLP

*Ercolini & Company LLP*

February 25, 2004

**OLD SALEM ASSOCIATES, LIMITED PARTNERSHIP**  
**HUD PROJECT NO.: 023-44805**

**BALANCE SHEET**

**DECEMBER 31, 2003**

**ASSETS**

**CURRENT ASSETS**

|   |              |
|---|--------------|
| 1120 Cash - operations                          | \$ 282,773   |
| 1130 Tenant accounts receivable                 | 6,942        |
| 1140 Accounts and notes receivable - operations | 29,489       |
| 1165 Interest reduction payment receivable      | 9,987        |
| 1200 Miscellaneous prepaid expenses             | <u>4,815</u> |

Total current assets 334,006

**DEPOSITS HELD IN TRUST - FUNDED**

|                      |         |
|----------------------|---------|
| 1191 Tenant deposits | 113,371 |
|----------------------|---------|

**RESTRICTED DEPOSITS AND FUNDED RESERVES**

|                               |                |
|-------------------------------|----------------|
| 1310 Escrow deposits          | \$ 107,883     |
| 1320 Reserve for replacements | <u>521,838</u> |

646,805

**RENTAL PROPERTY**

|                                       |                  |
|---------------------------------------|------------------|
| 1410 Land                             | 1,312,099        |
| 1420 Buildings                        | 6,792,887        |
| 1450 Furniture for project/tenant use | <u>1,264,325</u> |
|                                       | 9,369,311        |
| 1495 Less accumulated depreciation    | <u>5,661,158</u> |

3,708,153

\$ 4,802,335

**OLD SALEM ASSOCIATES, LIMITED PARTNERSHIP  
HUD PROJECT NO.: 023-44805**

**BALANCE SHEET - CONTINUED**

**DECEMBER 31, 2003**

**LIABILITIES AND PARTNERS' EQUITY (DEFICIT)**

**CURRENT LIABILITIES**

|  |              |
|--|--------------|
| 2110 Accounts payable - operations                         | \$ 43,676    |
| 2113 Accounts payable - entity                             | 2,000        |
| 2120 Accrued wages payable                                 | 3,890        |
| 2123 Accrued management fee payable                        | 4,881        |
| 2170 Mortgage payable - first mortgage, current maturities | 231,466      |
| 2190 Miscellaneous current liabilities                     | 48,007       |
| 2210 Prepaid revenue                                       | <u>9,883</u> |

Total current liabilities 343,803

**DEPOSITS LIABILITY**

|   |         |
|---|---------|
| 2191 Tenant deposits held in trust (contra) | 101,043 |
|---|---------|

**LONG-TERM LIABILITIES**

|  |                  |
|--|------------------|
| 2134 Accrued interest payable - other loans/notes                        | \$ 4,678,588     |
| 2320 Mortgage payable - first mortgage, net of current maturities        | 1,723,341.       |
| 2323 Other loans/notes payable - surplus cash, net of current maturities | <u>2,600,000</u> |

9,001,929

3130 PARTNERS' EQUITY (DEFICIT) (4,644,440)

\$ 4,802,335

**OLD SALEM ASSOCIATES, LIMITED PARTNERSHIP**  
**HUD PROJECT NO.: 023-44805**

**STATEMENT OF INCOME**

**YEAR ENDED DECEMBER 31, 2003**

**RENTAL REVENUE**

|   |               |
|---|---------------|
| 5120 Rent revenue - gross potential       | \$ 1,187,299  |
| 5121 Tenant assistance payments           | 1,087,134     |
| 5140 Rent revenue - stores and commercial | 63,826        |
| 5191 Excess rent                          | <u>42,381</u> |

|                      |              |
|----------------------|--------------|
| Total rental revenue | \$ 2,380,640 |
|----------------------|--------------|

**VACANCIES**

|                 |                 |
|-----------------|-----------------|
| 5220 Apartments | <u>(27,482)</u> |
| Total vacancies | <u>(27,482)</u> |

|                    |           |
|--------------------|-----------|
| Net rental revenue | 2,353,158 |
|--------------------|-----------|

**FINANCIAL REVENUE**

|   |              |
|---|--------------|
| 5410 Financial revenue - project operations         | 3,303        |
| 5440 Revenue from investments - replacement reserve | <u>3,131</u> |
| Total financial revenue                             | 6,434        |

**OTHER REVENUE**

|  |                  |
|--|------------------|
| 5910 Laundry and vending                 | 16,348           |
| 5920 Tenant charges                      | 16,162           |
| 5945 Interest reduction payments revenue | <u>90,923</u>    |
| Total other revenue                      | <u>123,433</u>   |
| Total revenue                            | <u>2,483,025</u> |

**OLD SALEM ASSOCIATES, LIMITED PARTNERSHIP  
HUD PROJECT NO.: 023-44805**

**STATEMENT OF INCOME - CONTINUED**

**YEAR ENDED DECEMBER 31, 2003**

**ADMINISTRATIVE EXPENSES**

|   |              |
|---|--------------|
| 6210 Advertising and marketing            | \$ 18,706    |
| 6250 Other renting expenses               | 3,524        |
| 6310 Office salaries                      | 189,587      |
| 6311 Office expenses                      | 55,017       |
| 6320 Management fee                       | 251,653      |
| 6330 Manager or superintendent salaries   | 37,957       |
| 6340 Legal expense - project              | 5,301        |
| 6350 Auditing expense                     | 13,000       |
| 6351 Bookkeeping fees/accounting services | 23,805       |
| 6370 Bad debts                            | <u>1,716</u> |

|                               |            |
|-------------------------------|------------|
| Total administrative expenses | \$ 600,266 |
|-------------------------------|------------|

**UTILITIES EXPENSE**

|                  |               |
|------------------|---------------|
| 6450 Electricity | 123,450       |
| 6451 Water       | 23,975        |
| 6452 Gas         | 121,464       |
| 6453 Sewer       | <u>40,823</u> |

|                         |         |
|-------------------------|---------|
| Total utilities expense | 309,712 |
|-------------------------|---------|

**OPERATING AND MAINTENANCE EXPENSES**

|  |              |
|--|--------------|
| 6510 Payroll   | 133,959      |
| 6515 Supplies  | 73,839       |
| 6520 Contracts   | 204,274      |
| 6525 Garbage and trash removal                               | 21,457       |
| 6530 Security payroll/contract                               | 10,238       |
| 6548 Snow removal  | 42,209       |
| 6570 Vehicle and maintenance equipment operation and repairs | <u>1,357</u> |

|  |         |
|--|---------|
| Total operating and maintenance expenses | 487,333 |
|--|---------|

**OLD SALEM ASSOCIATES, LIMITED PARTNERSHIP  
HUD PROJECT NO.: 023-44805**

**STATEMENT OF INCOME - CONTINUED**

**YEAR ENDED DECEMBER 31, 2003**

**TAXES AND INSURANCE**

|   |                       |
|---|-----------------------|
| 6710 Real estate taxes                            | \$ 154,257            |
| 6711 Payroll taxes                                | 38,474                |
| 6720 Property and liability insurance             | 95,606                |
| 6722 Workmen's compensation                       | 11,536                |
| 6723 Health insurance and other employee benefits | <u>43,383</u>         |
| <br>Total taxes and insurance                     | <br><u>\$ 343,256</u> |

**FINANCIAL EXPENSES**

|  |                   |
|--|-------------------|
| 6850 Mortgage insurance premium/service charge | 11,060            |
| 6890 Miscellaneous financial expenses          | <u>2,243</u>      |
| <br>Total financial expenses                   | <br><u>13,303</u> |

**DEPRECIATION AND AMORTIZATION**

|   |                    |
|---|--------------------|
| 6600 Depreciation expense               | <u>284,576</u>     |
| <br>Total depreciation and amortization | <br><u>284,576</u> |

**CORPORATE OR MORTGAGOR ENTITY REVENUE AND EXPENSES**

|  |                       |
|--|-----------------------|
| 7190 Other expenses  | <u>333,100</u>        |
| <br>Total corporate or mortgagor entity revenue and expenses | <br><u>333,100</u>    |
| <br>Total expenses   | <br><u>2,371,546</u>  |
| <br>Net income (loss)  | <br><u>\$ 111,479</u> |

OLD SALEM ASSOCIATES, LIMITED PARTNERSHIP  
HUD PROJECT NO.: 023-44805

STATEMENT OF PARTNERS' EQUITY (DEFICIT)

YEAR ENDED DECEMBER 31, 2003

|   |                       |
|---|-----------------------|
| Partners' equity (deficit)<br>December 31, 2002 | \$ (4,755,579)        |
| Net income (loss)                               | <u>111,139</u>        |
| Partners' equity (deficit)<br>December 31, 2003 | <u>\$ (4,644,440)</u> |

**OLD SALEM ASSOCIATES, LIMITED PARTNERSHIP**  
**HUD PROJECT NO.: 023-44805**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2003**

|   |                   |
|---|-------------------|
| <b>Cash flows from operating activities</b>                 |                   |
| Rental receipts   | \$ 2,364,975      |
| Interest receipts   | 6,314             |
| Other operating receipts                                    | 120,238           |
| Administrative expenses paid                                | (150,056)         |
| Management fees paid  | (249,264)         |
| Utilities paid  | (298,326)         |
| Salaries and wages paid                                     | (373,560)         |
| Operating and maintenance paid                              | (337,827)         |
| Real estate taxes paid                                      | (154,257)         |
| Property insurance paid                                     | (94,176)          |
| Tenant security deposits received                           | (11,852)          |
| Tenant security deposits paid                               | (93,393)          |
| Mortgage insurance premium paid                             | (11,060)          |
| Miscellaneous financial expenses paid                       | (2,123)           |
| <b>Entity/construction expenses paid (include detail)</b>   |                   |
| Miscellaneous entity expenses                               | \$ 2,000          |
| Construction supervision fee                                | 5,100             |
| Other partnership fees                                      | 1,000             |
| Interest on loans/notes payable                             | 330,423           |
|   | (338,523)         |
| <b>Net cash provided by (used in) operating activities</b>  | <u>377,110</u>    |
| <b>Cash flows from investing activities</b>                 |                   |
| Net deposits and interest to mortgage escrows               | (9,827)           |
| Deposits to and interest earned on reserve for replacements | (174,527)         |
| Withdrawals from reserve for replacements                   | 125,506           |
| Purchases of fixed assets                                   | (104,601)         |
| <b>Net cash provided by (used in) investing activities</b>  | (163,449)         |
| <b>Cash flows from financing activities</b>                 |                   |
| Mortgage principal payments                                 | (212,669)         |
| <b>Net cash provided by (used in) financing activities</b>  | <u>(212,669)</u>  |
| <b>NET INCREASE (DECREASE) IN CASH</b>                      | <b>992</b>        |
| <b>Cash, beginning</b>                                      | <b>281,781</b>    |
| <b>Cash, ending</b>   | <b>\$ 282,773</b> |

**OLD SALEM ASSOCIATES, LIMITED PARTNERSHIP  
HUD PROJECT NO.: 023-44805**

**STATEMENT OF CASH FLOWS - CONTINUED**

**YEAR ENDED DECEMBER 31, 2003**

|   |                   |
|---|-------------------|
| Reconciliation of net income (loss) to net cash provided by (used in) operating activities        |                   |
| Net income (loss)   | <u>\$ 111,139</u> |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities |                   |
| Depreciation  | 284,576           |
| Changes in asset and liability accounts   |                   |
| (Increase) decrease in assets   |                   |
| Tenant accounts receivable  | 7,016             |
| Accounts receivable - other   | (31,584)          |
| Miscellaneous prepaid expenses  | 1,430             |
| Tenant security deposits funded   | (10,240)          |
| Increase (decrease) in liabilities  |                   |
| Accounts payable  | 29,992            |
| Accrued liabilities   | (15,041)          |
| Tenant security deposits held in trust  | (1,612)           |
| Prepaid revenue   | 6,857             |
| Entity/construction liability accounts (include detail)   |                   |
| Accrued interest payable - other loans/notes  | <u>\$ (5,423)</u> |
|   | <u>(5,423)</u>    |
| Total adjustments   | <u>265,971</u>    |
| Net cash provided by (used in) operating activities   | <u>\$ 377,110</u> |

**OLD SALEM ASSOCIATES LIMITED PARTNERSHIP  
HUD PROJECT NO.: 023-44805**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2003**

**1. ORGANIZATION:**

Old Salem Associates Limited Partnership (the Partnership) was formed as a Limited Partnership under the laws of the State of Massachusetts on December 28, 1982, for the purpose of acquiring, rehabilitating, maintaining, operating, and leasing a rental housing project under Section 236 of the National Housing Act. The project consists of four complexes totaling 321 units located in Beverly, Danvers, Peabody and Salem, Massachusetts and is currently operating under the name of Fairweather Apartments.

The Partnership's mortgage is insured under Section 236 and the Partnership also receives rental subsidies under a Section 8 Housing Assistance Payment Contracts for 220 units. These programs are major HUD programs for the year ended December 31, 2003.

The Partnership has entered into agreements with the Department of Housing and Urban Development (HUD) which regulate the project, its rental charges, operating policies and distributions. Distributions are limited to surplus cash, as defined by HUD. The Partnership agreed to limit distributions to 6% of HUD approved equity, \$24,796, per year through March 2000. In connection with the execution of the Section 8 contract changes under the MAHRA program, the annual distribution was increased by \$408,422 to \$433,218 commencing April 1, 2000. Under provisions of MAHRA, the annual distribution is subject to increase based on the operating cost adjustment factor. The annual dividend earned for 2003 was \$566,868 Undistributed amounts are cumulative and may be distributed on a semi-annual basis, in subsequent years if future operations provide surplus cash in excess of current requirements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Rents receivable**

Tenants' rents receivable are presented net of an allowance for doubtful accounts. Management's estimate of uncollectible amounts is based upon its historical collection experience and its assessment of the current status of individual accounts. Tenants' rent subsidies receivable are deemed by management to be fully collectible based on its historical collection experience.

**Rental Property**

Rental property is carried at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives by use of the straight-line method for financial reporting purposes. For income tax purposes, accelerated lives and methods are used.

**Rental Income**

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Partnership and the tenants of the property are operating leases.

**OLD SALEM ASSOCIATES LIMITED PARTNERSHIP  
HUD PROJECT NO.: 023-44805**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**YEAR ENDED DECEMBER 31, 2003**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**Income Taxes**

No provision or benefit for income taxes has been included in these financial statements since taxable income or loss passes through to, and is reportable by, the partners individually.

**Advertising**

Advertising and marketing costs are expensed when incurred.

**Cash Equivalents**

For purposes of the statement of cash flows, the Partnership considers all highly liquid investments in overnight repurchase agreements collateralized by U.S. Government and Agency obligations, to be cash equivalents.

**3. MORTGAGE PAYABLE:**

The mortgage is insured by HUD and is payable in monthly installments of \$32,395 for principal and interest at the rate of 8-1/4% through July 1, 2010. The mortgage is collateralized by substantially all of the assets of the Partnership.

HUD acting through the Federal Housing Administration is assisting the Partnership under Section 236 of the National Housing Act by making monthly interest reduction payments directly to the mortgagor on behalf of the Partnership in order to affect a one percent (1%) interest rate on the Partnership's mortgage notes over their term. During the year, the annual subsidy amounted to \$263,804. This is reflected as income, net of interest incurred of \$172,881, of \$90,923 in the statement of income. At December 31, 2003, interest subsidy receivable of \$22,114 and accrued interest payable of \$12,037 were reflected as a net receivable on the accompanying balance sheet.

Under the agreements with HUD and the lender, the Partnership is required to make monthly escrow deposits for taxes, insurance and replacement of project assets and is subject to restrictions as to operating policies, rental charges, operating expenditures and distributions to partners. At December 31, 2003, the monthly escrow and replacement reserve payments were \$19,145 and \$14,283, respectively.

The following represents the principal payments due on the mortgage during the next five years following December 31, 2003 and thereafter:

|            |                     |
|------------|---------------------|
| 2004       | 231,466             |
| 2005       | 251,926             |
| 2006       | 274,194             |
| 2007       | 298,430             |
| 2008       | 324,809             |
| Thereafter | <u>573,982</u>      |
|            | <u>\$ 1,954,807</u> |

**OLD SALEM ASSOCIATES LIMITED PARTNERSHIP  
HUD PROJECT NO.: 023-44805**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**YEAR ENDED DECEMBER 31, 2003**

**4. NOTES PAYABLE:**

Other loans/notes payable - surplus cash represents a purchase money note payable of \$2,600,000 and accrued interest thereon of \$4,687,588 to an affiliate of the general partners. The note bears simple interest at the rate of 12 ½% per annum and is payable from cash flow as defined. The note is collateralized by a security interest in each partner's interest in the Partnership. The outstanding principal balance and accrued interest are due upon the earlier of the sale or refinancing of the project or August 31, 2003. During 2003, \$325,000 of interest was accrued and included in mortgagor entity expense and \$330,423 of interest was paid from surplus cash.

**5. TRANSACTIONS WITH AFFILIATES:**

Mortgagor entity expenses include \$5,100 related to construction supervision fees charged by an affiliate of the general partner, and \$2,000 for miscellaneous fees. These amounts are payable from surplus cash.

The Partnership reimbursed an affiliate for payroll and related costs of \$465,616. As of December 31, 2003, \$3,890 is included in accrued wages payable.

**6. MANAGEMENT FEE:**

The property is managed by MB Management Company, an affiliate of the general partner, pursuant to a management agreement approved by HUD. The current management agreement provides for a management fee of 10.5% of gross monthly collections. In addition, the management agent also receives fees for computer and bookkeeping charges. Such fees charged to operations during 2003 were \$275,458 of which \$4,881 remains unpaid and is included in accrued management fees payable.

**7. RECONCILIATION OF NET INCOME PER FINANCIAL STATEMENTS WITH INCOME PER TAX RETURN:**

The reconciliation of the net income per financial statement to the taxable income for the year ended December 31, 2003 is summarized as follows:

|   |                   |
|---|-------------------|
| Net income as shown by financial statements   | \$ 111,139        |
| Other   | 6,857             |
| Excess of depreciation deducted for book purposes<br>over depreciation deducted on tax return | <u>173,283</u>    |
| Income as shown by tax return   | <u>\$ 291,279</u> |

The carrying value of the property for financial reporting purposes exceeds its tax basis by approximately \$1,593,000.

OLD SALEM ASSOCIATES LIMITED PARTNERSHIP  
HUD PROJECT NO.: 023-44805

NOTES TO FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED DECEMBER 31, 2003

**8. RENTAL ASSISTANCE PAYMENTS:**

The Partnership has entered into two Housing Assistance Payment Contracts.

The first agreement covers 160 units and initially expired on June 30, 1999. The Partnership executed a series of interim contract extensions while it was in the process of completing a request to mark up to market under the provisions of the Multifamily Assisted Housing and Reform and Affordability Act (MAHRA) of 1998. These interim agreements expired on March 31, 2000. Effective April 1, 2000, the existing Section 8 contract was amended to change the level of housing assistance payments available, modify the term of the contract and increase the allowable annual dividend earned. This section 8 contract expires on March 31, 2005. The contract and HUD regulations provided for an increase in the annual dividend earned in an amount equal to the increase in Section 8 rents. Under the provisions of the extension, contract rent adjustments are to be determined based on an operating cost adjustment factor as outlined in MAHRA and related regulations.

The second agreement covers 60 units and was renewed on September 1, 2003 and will expire on March 31, 2005. The annual assistance is subject to annual appropriations and increases pursuant to MAHRA.

**9. CONCENTRATION OF CREDIT RISK:**

The mortgagee (GMAC) holds tax and insurance deposits, and replacement reserve deposits, and other reserves totaling approximately \$539,000 at various banks. Accounts at the financial institutions are insured up to \$100,000 per depositor by the Federal Deposit Insurance Corporation (FDIC). The Partnership has not experienced any losses in such accounts. Management believes that the partnership is not exposed to any significant credit risk on cash and other financial instruments.

**10. ACCOUNTS AND NOTES RECEIVABLE – OPERATIONS:**

Accounts and notes receivable – operations consist of the following at December 31, 2003:

Receivable of \$28,389 represents funds disbursed from the reserve for replacements on December 30, 2003 and received by the Partnership in January 2004.

A miscellaneous receivable of \$1,100.

**IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF MASSACHUSETTS**

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|                                  |   |                  |
|----------------------------------|---|------------------|
| ROBERT M. GERBER, AS TRUSTEE     | : |                  |
| ROSALIE GERBER TRUST, WILLIAM J. | : |                  |
| GILLIGAN AND JAYNE GILLIGAN,     | : |                  |
| HUSBAND AND WIFE, SANFORD R.     | : |                  |
| HOFFMAN AND BETH L. HOFFMAN,     | : |                  |
| HUSBAND AND WIFE,                | : |                  |
| AND JAMES D. BURNS,              | : |                  |
|                                  | : |                  |
| Plaintiffs,                      | : | CIVIL ACTION NO. |
|                                  | : | 05-10782-DPW     |
|                                  | : |                  |
| ROBERT S. BOWDITCH, JR.          | : |                  |
| GERALD SLAVET, STEVEN RIOFF,     | : |                  |
| AND BSR ASSOCIATES,              | : |                  |
|                                  | : |                  |
| Defendants.                      | : |                  |
|                                  | : |                  |

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**AFFIDAVIT OF STEPHEN ROBERTS**

I, Stephen Roberts, being duly sworn, hereby depose and state as follows:

1. I am Chief Executive Officer of MB Management, a Massachusetts partnership which manages the property owned by Old Salem Associated Limited Partnership.
2. Financial statements are distributed to the limited partners on an annual basis. Attached hereto as Exhibit B is a true and correct copy of the Partnership's Financial Statements And Independent Auditor's Report For Year Ended December 31, 2003 and a cover letter dated March 1, 2004. These are the financial statements referenced on page 2 of Exhibit A to the Complaint (attached hereto as same), which were sent under the attached cover letter to all Limited Partners, including Plaintiffs, under my direction on March 1, 2004. The original package that was sent to Plaintiffs Sanford and Beth Hoffman was returned to MB Management.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 21st day of July.

/s/ Stephen Roberts  
Stephen Roberts

CERTIFICATE OF SERVICE

I, Donald J. Savery, hereby certify that on this 25th day of July, 2005, I served the foregoing document by causing a true copy of same to be delivered by federal express to counsel for the Plaintiffs.

/s/ Donald J. Savery  
Donald J. Savery